

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

April 15, 1997

The Capital Projects and Bond Oversight Committee met on Tuesday, April 15, 1997, at 1:00 p.m., in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senators Bob Leeper and Denny Nunnelley; Representatives Drew Graham, Paul Marcotte, and Jim Wayne.

Guests: Bill Hintze, Earl Clements, Allen Holt, Governor's Office for Policy and Management; Commissioner Armond Russ, Department for Facilities Management; Mary Lassiter, Kim Blitch, Bart Hardin, Marilyn Eaton-Thomas, Office of Financial Management and Economic Analysis; Dr. Robert Tarvin, School Facilities Construction Commission; Tom Engstrom, Ernie Tacogue, Department of Education; Commissioner Mary Ray Oaken, Bob Bender, Department of Parks; Harold Workman, State Fair Board; Commissioner Billy Ray Smith, Dee Baugh, Eddie Duvall, Mark Farrow, Department of Agriculture; Chairman Luther B. Hughes, Libby Jones, PACE Board; Jody Curry, Natural Resources and Environmental Protection Cabinet; Bruce Bailey, Cabinet for Health Services; Mary Allen, University of Kentucky; Larry Owsley, University of Louisville; Dennis Taulbee, Sherron Jackson, Council on Higher Education; Mike Porter, Kentucky Dental Association; Jack Affeldt, Kim Burch, Linda Kubala, Dan Risch, Doug Teague, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Scott Varland, Jonathan Downey.

Representative Graham made a motion to approve the minutes as submitted of the March 18, 1997 meeting. Representative Wayne seconded the motion, which passed by voice vote.

Chairman Damron said the following Correspondence items were provided:

3. The Finance and Administration Cabinet submitted its quarterly status report for capital projects authorized by the last 2 General Assemblies.

Chairman Damron said an item of Old Business on the day's agenda was a request made in October 1996 by the Finance and Administration Cabinet for approval to allocate \$350,000 from the Capital Construction and Equipment Purchase Contingency Account to assist in funding the Purchase of Agricultural Conservation Easements (PACE) Program; the allocation would be matched with other fund sources to purchase conservation easements for agricultural land. Committee action on the request has been postponed pending provision of further information on the Program as requested by the Committee. Dr. Luther Hughes, Chair of the PACE Board; Libby Jones, Vice-Chair of the PACE Board; and Commissioner Billy Ray Smith, Department of Agriculture, gave a report on the project.

Dr. Hughes said there are programs like PACE in 17 different states. He said there are about 3 million acres of prime agricultural land lost each year to non-agricultural uses. This is equivalent to a strip of land one-half mile wide across the United States. In Kentucky, 250 acres per day are lost to non-agricultural uses. Dr. Hughes pointed out the average farm in Kentucky is 155 acres, thus an average of 1.5 farms are lost per day. He said this project is not anti-development, but rather, should be viewed as wise land use, saving and protecting the best agricultural land for future agricultural production. Several studies indicate that if the best agricultural land continues to be lost at the current rate, by the year 2015, this country will not be able to produce the food needed for its own people.

Dr. Hughes said one year ago, on very short notice, the Board, with help from the Agriculture Commissioner's Office and the Office of the Secretary of the Natural Resources and Environmental Protection Cabinet, was able to develop a funding proposal for the Farmland Protection Program under the United States Department of Agriculture. The Board received \$400,000 in federal funds which requires 50% in matching funds. In addition to the \$350,000 from the Contingency Account, the balance in matching funds will come in equal amounts from Department of Agriculture Agency Funds and private funds. Chairman Hughes said the PACE Board recently transmitted to the Committee responses to questions members raised about the project at the Committee's meeting in October. He said the communication also contains the criteria the Board will use to select farmland for purchase of the easements. Dr. Hughes said the criteria will maintain the integrity of the program and ensure that it will only be used

months to a year. Chairman Damron said the Committee would like an update once the purchase process has begun.

Representative Graham said the highest priced farms in Central Kentucky are horse farms. However, he said, conservation easements on horse farms are not the type of easements the legislation intended PACE to purchase. He asked if land-use criteria will be used to assure easements purchased are on farms that produce food products. Dr. Hughes agreed with Representative Graham's statements and said the program was most concerned with food-producing agricultural lands, and while the Board did not establish criteria to eliminate any group of farms, food producing agricultural lands should be the priority. In response to further concerns raised by Representative Graham, Dr. Hughes assured the Committee that the Board's real interest is in preserving true agricultural lands.

Chairman Damron asked if the state had appraisers qualified to inspect agricultural easements. Mr. Bill Hintze of the Governor's Office for Policy and Management said that these purchases would be processed under regular state procurement standards through the Department for Facilities Management, Contract Administration, and Purchases. He said Commissioner Russ, Department for Facilities Management, has informed him that there are qualified appraisers on staff. Chairman Damron asked Commissioner Smith if he anticipated receiving any additional federal money to fund this project and if additional funding for PACE has been requested in the Department of Agriculture's six-year plan. Commissioner Smith said the Department has not made this request. He said personnel in the Department have discussed this with the PACE Board and various options that other states have utilized are being examined. He said they were exploring various funding options, outside of General Fund appropriations, for providing additional revenue. He said the main focus would be on voluntary contributions of easements or partial easements from people who would like to participate in the Program.

Chairman Damron noted that PACE had raised \$3,500 more in private donations than the \$25,000 they pledged at the October meeting. Representative Wayne moved that the project be approved with the Contingency Account allocation of \$350,000 for a total project scope of \$803,500, and with the understanding that PACE officials periodically report to the Committee on the program's progress. Representative Graham seconded the motion, which passed by voice vote.

The instructor will be able to program clinical procedures and give a common problem to the whole class and let all students respond. Mr. Owsley said this was not an expansion of the current program, but is meant to address the quality of pre-clinical instruction. Fund sources are \$700,000 in private funds and \$700,000 from the School of Dentistry's revenues from clinic operations.

Chairman Damron asked if any funds for the project would be diverted from any other purpose. Mr. Owsley said the private funds have been in an endowment and have been released for this purpose. Chairman Damron noted that four years ago, there was a debate over the closing of one of the two dental schools in the state. He asked Mr. Sherron Jackson, Council on Higher Education, to update the Committee on that debate. Mr. Jackson responded that the debate is over and the decision was made to maintain both dental schools. In response to another question by Chairman Damron, Mr. Jackson said the project before the Committee would not impact the future viability of one dental school over another.

Representative Marcotte made a motion to approve the unbudgeted project. Representative Wayne seconded the motion, which passed by unanimous voice vote.

Next on the agenda was the monthly project report submitted by the Finance and Administration Cabinet. Mr. Bill Hintze, Deputy State Budget Director in the Governor's Office for Policy and Management, and Commissioner Armond Russ of the Department for Facilities Management, were present. Mr. Hintze said first reported was an emergency repair project at the parking structure and fountain stairs at the Capital Plaza Tower. Mr. Hintze said there had been complaints about the condition of the area and it was concluded that, because the situation posed a potential public safety hazard, the repairs need to be made as soon as possible. He said \$358,000 has been made available from the Emergency Repair, Maintenance and Replacement Account to repair the worst damages at the Capital Plaza Tower. More funds will be requested through the 6-year planning process for more extensive renovation.

Mr. Hintze said the second project was another emergency project, this one on the site of an active capital project at the Kentucky School for the Blind in Louisville. The active project, soil stabilization and grounds improvement, was authorized by the 1994 General Assembly in its 1st Special Session at \$435,600 in General Funds. The bid had been awarded and work was well underway on the campus when a larger problem was discovered - lead contamination in the soil. Work had to be stopped so

total project to \$707,800, of which \$272,200 is the amount presented for emergency funding.

Chairman Damron asked if the entire property had been examined to determine if there is contamination elsewhere. Commissioner Russ said it was unclear where the lead came from and that it may predate ownership of the property. He said the Department for Facilities Management is correcting all contamination they are aware of. The School for the Blind is in a very old part of the city and there may be other contaminants on the campus. However, he said he was confident that the campus would be safe after the remediation plan was complete.

Allocations from the emergency account are required to be reported to the Committee within 30 days, but Committee action is not required.

Mr. Hintze said next was an unbudgeted, federally funded project at Big Bone Lick State Park in Boone County. The project is an interpretive diorama trail called Discovery Trail which will feature dinosaurs and other prehistoric animals that once inhabited the area. The funding comes from 2 separate sources: a \$400,000 grant under the federal Intermodal Surface Transportation Act (ISTEA) of 1991 and \$100,000 in matching funds from the Department of Parks' maintenance pool. Chairman Damron said \$500,000 was a large amount of money for a trail only four-tenths of a mile long and asked why the cost would be so high. Bob Bender, Deputy Commissioner for Support Services, Department of Parks, said the trail would feature a number of interpretive settings with life-size animals depicted. He said this type of work is expensive but this will be the first step in the development of a first-class attraction at the Park. He said there was no local funding in this project.

In response to a further question from Chairman Damron, Mr. Bender said there are ongoing discussions with the state of Nebraska for the return of artifacts taken from Big Bone Lick after an archaeological dig at the site in the early 1960s. The decision has been made not to enter into a lawsuit with Nebraska concerning these artifacts. He said, however, there is still a chance to recover the bones from Nebraska, and a museum to store these fossils continues to be a high priority with the Department of Parks.

Representative Marcotte made a motion to approve the federally-funded project. Representative Graham seconded the motion, which passed by unanimous voice vote.

to blend more smoothly into the existing center. This proposal would be the third series of local bonds issued for the convention center expansion project.

Mr. Workman noted that the average annual growth rate in revenues from the Jefferson County room tax has been 9.05%, and last year the growth was 11-12%. The increase is due to additional motels being built and higher room rates. The first 2 bond issues, Series A and B, were based on 0% growth in the room tax. Mr. Workman projected that with a 3% growth in the room tax, the Series A and B bonds will be paid off by 2009 and the proposed third issue would be paid off by 2014. With a 5% growth rate, Series A and B bonds will be retired by 2008 and the proposed third issue will be retired by 2011.

Chairman Damron asked if excavation on the site had resumed. Mr. Workman indicated that it had, but progress has been slow. He indicated that there had been a delay relating to a decision by Louisville Gas and Electric in the placement of the electric vault. Sheet piling for the vault had to be customized and additional digging was required.

In response to a question by Chairman Damron, Mr. Workman indicated that all discussion relating to an underground parking garage has ended.

Representative Wayne made a motion to approve the locally-funded scope increase for the project. The motion was seconded by Senator Nunnelley and approved by unanimous voice vote.

Chairman Damron thanked Commissioner Russ and Mr. Hintze, and asked that the Committee be given a report at the next meeting concerning anticipated contingency and emergency expenses relating to the recent flooding. Chairman Damron said there has been much discussion in the media concerning the state leasing buildings that lie in the flood plain. He asked that a review of this be included in that report.

Next were bond activity reports from the Office of Financial Management and Economic Analysis (OFMEA). Marilyn Eaton-Thomas of the Kentucky Infrastructure Authority (KIA) said there were 4 projects to be considered, 2 new projects and 2 modified projects. The first was a proposed loan of \$815,685 for Lawrence County from KIA's Fund A, the Federally Assisted Wastewater Revolving Loan Fund. The funds will

approval. Ms. Eaton-Thomas said the loan should be fine as long as the 8 conditions are complied with. She said the loan was high risk because the County has not been involved in sewer systems before and everything has been based on projections. Representative Wayne made a motion that the Fund A loan be approved contingent on the 8 conditions outlined by KIA. Representative Marcotte seconded the motion, which passed by unanimous voice vote.

The next project was the second phase of a wastewater system expansion by the Greenup County Environmental Commission (GCEC). The project, a 47-million gallon deep cell facultative lagoon and pretreatment equipment, will serve several communities in Greenup and Boyd Counties. A Fund A loan of \$2,257,949 is proposed for GCEC to provide 100% Phase II project financing; the loan will have a 3.8% interest rate with a 20 year term. The average sewer bill for the area will be \$18.80 for 4,000 gallons usage. Representative Wayne made a motion to approve the Fund A loan project contingent on the 3 conditions stipulated by KIA. Representative Marcotte seconded the motion, which passed by unanimous voice vote. (In June 1995, the Committee approved a Fund A loan of \$3,171,899 for Phase I of GCEC's wastewater system expansion project.)

Ms. Eaton-Thomas said the Fund A loan for next project for the City of Mt. Vernon was originally approved in mid-1994, but due to delays and additional funding needs, the project requires reapproval. Bids received have increased the loan request by \$44,230, for a new Fund A loan amount of \$691,880. Total estimated project costs are \$1,051,620 and other funding sources are an Appalachian Regional Commission grant and local funding. This project involves construction of a sludge handling facility, extension of sewer collection lines, and replacement of a pump station at an existing Industrial Park. The loan will be at 1.8% with a term of 20 years. The average bill will be \$17.95 for in-city customers and \$26.93 for customers outside the city. Representative Wayne made a motion that the loan increase and reapproval be approved contingent on the 7 conditions stipulated by KIA. Representative Marcotte seconded the motion, which passed by unanimous voice vote.

The final project involved a \$300,000 loan from KIA's Fund E, Solid Waste Grant and Revolving Loan Program, to the Magoffin County Fiscal Court, for construction and acquisition of a solid waste transfer station, recycling center, and computer equipment. In February 1995 when the Committee originally approved the Fund E loan, the project also included a landfill closure which will now be funded by an Appalachian Regional

newest program, the Drinking Water State Revolving Loan Fund, to be called Fund F. This new program should be in effect by September.

Ms. Mary Lassiter of the Office of Financial Management and Economic Analysis (OFMEA) reported new School Building Revenue and Refunding Bonds, Series 1997, with state funding through School Facilities Construction Commission (SFCC) participation in annual debt service payments, for the following school districts:

a. Boyle County - with gross proceeds of \$1,910,000, for various renovations in the county school system. Annual SFCC debt service participation of \$41,625 and locally-funded debt service of \$117,298.

b. Christian County - with gross proceeds of \$5,135,000, for the construction of a new Sinking Fork Elementary School. Annual SFCC debt service participation of \$77,297 and locally-funded debt service of \$345,624.

c. Daviess County - with gross proceeds of \$4,080,000, to renovate a middle school and high school. Annual SFCC debt service participation of \$39,000 and locally-funded debt service of \$291,000.

d. Gallatin County - with gross proceeds of \$1,105,000, for a refunding of 1987 bonds and a partial refunding of 1989 bonds. Annual SFCC debt service participation of \$109,500 and locally-funded debt service of \$500. Ms. Lassiter noted the present value savings expected to accrue from these refinancings total \$75,100.

e. Henry County - with gross proceeds of \$1,155,000, to replace heating systems with HVAC at 3 elementary schools. Annual SFCC debt service participation of \$38,680 and locally-funded debt service of \$70,821.

f. Lewis County - with gross proceeds of \$600,000, to renovate Central Elementary School. Annual SFCC debt service participation of \$31,737 and locally-funded debt service of \$17,628.

g. Powell County - with gross proceeds of \$1,515,000, for a partial refunding of 1989 bonds. Annual SFCC debt service participation of \$51,150 and locally-funded debt service of \$113,850. Ms. Lassiter noted the present value savings expected to accrue from this refinancing total \$72,166.

Bond Payee Disclosure Forms and additional preliminary information for each proposed new bond issue were provided, and none of the issues required an increase in local school tax rates.

In response to a question from Chairman Damron, Ms. Lassiter said typically

replied that each school district contracts for those services independently; this is a choice of the school district and there is no common contract for these services. Dr. Tarvin, SFCC director, added that Henry Reed serves as bond counsel for approximately 70% of the bond issues that have SFCC participation. The motion passed by unanimous voice vote.

Also reported was the proposed issuance of school building revenue bonds, with 100% locally-funded debt service and no SFCC debt service participation, for:

- a. Mercer County - with gross proceeds of \$880,000, to renovate an elementary school; and
- b. Issues by 10 individual school districts with gross proceeds of \$4,000,000 each to establish the Small Issuer's Loan Program by the Kentucky Interlocal School Transportation Association (KISTA). Issuers were Williamstown Independent, Providence Independent, Elliott County, Fulton County, Williamsburg Independent, Murray Independent, Ballard County, Carlisle County, Cloverport Independent, and Augusta Independent.

Chairman Damron said Committee staff had reviewed information submitted for these new school bond issues with 100% locally-funded debt service, and found the issues to be in compliance.

Chairman Damron said the updated monthly and weekly debt issuance calendars were included in members' folders. A further information item stated that Moody's Investors Services has upgraded the rating for local school bonds in Kentucky; this places Kentucky in the top 2 states in local school bond ratings. Chairman Damron said this was an excellent statement concerning the job the Department of Education has done in examining school bond issues.

Chairman Damron said the last item in the agenda was a review of an Open Records decision reached by the Attorney General's Office. Scott Varland, legal counsel for the Committee, said the General Assembly approved the Commonwealth Convention Center Expansion project in Louisville, but did not approve the construction of an underground parking garage. When the Finance Cabinet began negotiations with private entities to build a parking garage under the expansion, Chairman Damron, at the behest of the Committee, filed an Open Records request with the Finance and Administration Cabinet to obtain the names of the entities with whom the Cabinet was

the Kentucky General Assembly; it said the information sought could have been obtained through a subpoena.

Chairman Damron said this was a favorable ruling for the Capital Projects and Bond Oversight Committee and the General Assembly and speaks well and strongly for the independence of the Legislative Branch. He thanked Mr. Varland for his hard work on the request.

Chairman Damron said the next meeting was scheduled for Tuesday, May 20, 1997 at 1:00 p.m. in Room 129 of the Capitol Annex. There being no further business to come before the Committee, the meeting was adjourned at 2:15.